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Purchasers Report Renewed Economic Growth; Index Rebounds to 56.8%

Employment Growth Rate Greatest in '88

Analysis by the National Association of Purchasing Management Business Survey Committee; chair, Robert J. Bretz, C.P.M., director of materials management, Pitney Bowes, Inc.

October Report

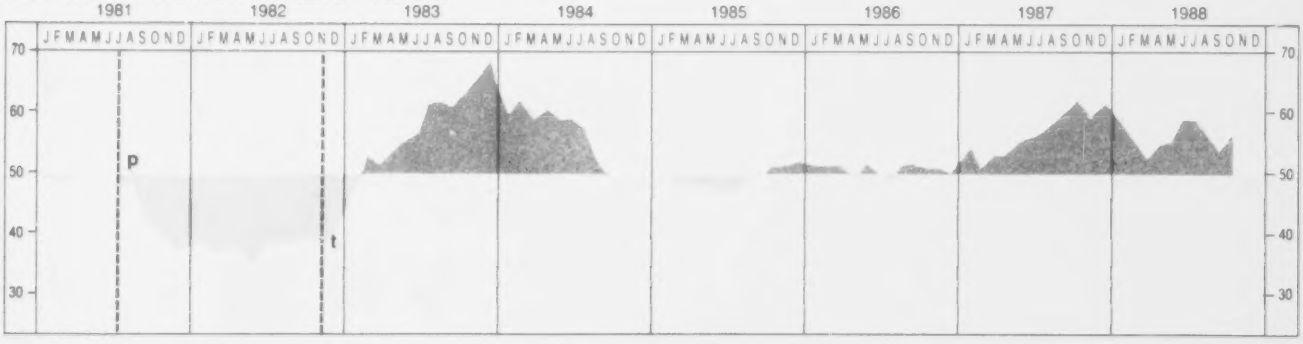
The economy improved the rate of growth in October after slowing in September to the lowest growth rate in six months, say the nation's purchasing executives in their latest ***Report on Business.*** **Production** growth rate expanded briskly at the highest rate in three months. **New Orders** also continued to grow at a slightly faster pace than in September.

New **Export Orders,** a major element of recent economic growth, continued to increase but showed signs of fatigue for the third consecutive month. Of those members who export, 26% reported higher export orders, virtually unchanged from 27% in September, but lower than the 37.8% average of the first seven months of 1988. The 8% reporting lower export orders increased from 6% in September and is the most to report lower in 1988.

Vendor Deliveries continued slower at about the same rate as September. **Inventories** declined somewhat for the third consecutive month. **Employment** increased for the fifth consecutive month in October at the strongest rate of growth in 1988. Although **Prices** increased for the 27th consecutive month, the rate of growth is the lowest in the past seventeen months. And, the number of commodities reported up in price is 18, down from 30 in September.

The Report was issued today by Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee, and director of materials management at Pitney Bowes, Inc. Said Bretz, "October's growth heralded a healthy resilience in the economy as it entered the fourth quarter. Despite the apparent slowing in the growth rate of new Export Orders, the continued high level of New Orders, coupled with a reduced inflation rate, suggests the fourth quarter economy will be as good as the previous three."

PURCHASING MANAGERS' INDEX



Purchasing Managers' Index

January	57.4	June	59.3
February	54.9	July	59.0
March	53.3	August	56.2
April	54.9	September	54.8
May	55.1	October	56.8

The ***Purchasing Managers' Index*** recovered to 56.8% in October, up from 54.8% in September. The 56.8% reverses a three month decline and marks the 27th consecutive month this leading indicator has exceeded 50%. A reading above 50 indicates that the economy is generally expanding; below 50, that the economy is generally declining. Bretz added, "The average for the first ten months of 1988 is 56.2%. Past experience indicates that if the average were to continue for the last two months of 1988, it would be consistent with real GNP growth of about 3.7%, unchanged from the past three months."

Data and method of presentation

The *Report on Business* is based on data compiled from monthly replies to questions asked of purchasing executives in over 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification (SIC) category, based on each industry's contribution to Gross National Product (GNP). Twenty-one industries in 50 states are represented on the committee.

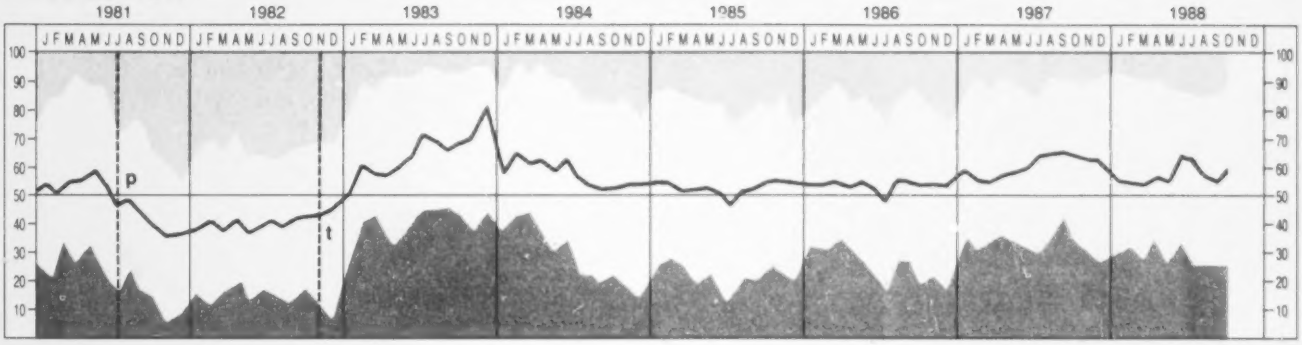
Survey responses reflect the change, if any, in the current month compared to the previous month. For each of the indicators measured (new orders, production, vendor deliveries, inventories, employment and prices), this report shows:

- the percent reporting each response;
- the net difference between the number of responses in the positive economic direction (higher, better — and slower for vendor deliveries) and the negative economic direction (lower, worse — and faster for vendor deliveries);
- the diffusion index.

The charts provide a basis for comparing current data with the historical pattern. The dotted vertical lines on each chart indicate for the period shown the official peak ("p" — July 1981) and trough ("t" — November 1982) of the economy as determined by the National Bureau of Economic Research. The percentage of responses in the positive economic direction are shown in blue, the negative in red, and the same in white. Responses are raw data and are never changed. The diffusion index includes the percent of positive responses, plus one-half of those responding the same (considered positive). The resulting single index number is then seasonally adjusted to allow for the effects of repetitive intra-year variations resulting primarily from normal differences in weather conditions, various institutional arrangements and differences attributable to non-moveable holidays. All seasonal adjustment factors are supplied by the U.S. Department of Commerce and are subject annually to minor changes when conditions warrant them. The Purchasing Managers' Index is a composite index based on the seasonally adjusted diffusion indexes for five of the indicators (new orders, production, vendor deliveries, inventories and employment) with varying weights applied.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change and the scope of change. An index reading above 50% indicates that the economy is generally expanding; below 50% generally declining. The distance from 50% is indicative of the strength of the expansion or decline.

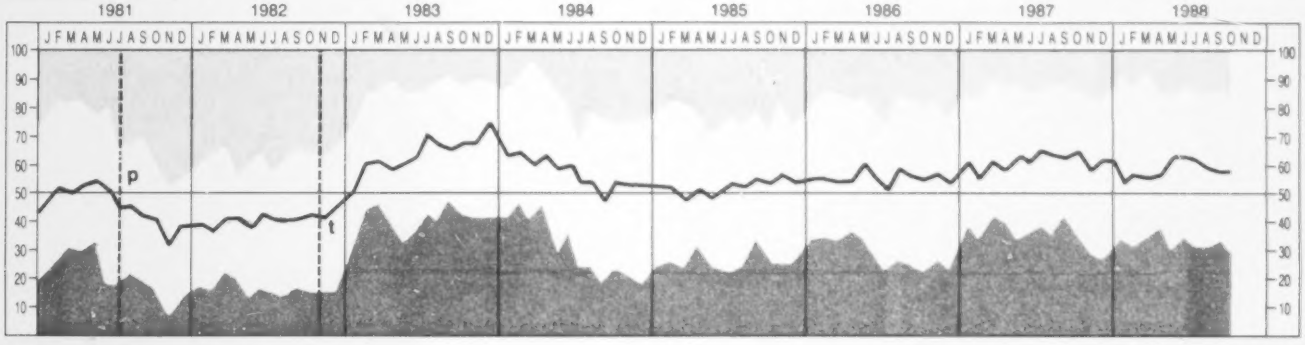
PRODUCTION



Production increased in October for the 27th consecutive month. The index, at 60.3%, indicates the highest rate of growth since July (62.7%) and reverses three consecutive months of slowing in the rate of growth.

Production	%Better	%Same	%Worse	Net	Index
October	26	65	9	+17	60.3
September	26	62	12	+14	56.0
August	26	60	14	+12	58.2
July	25	62	13	+12	62.7

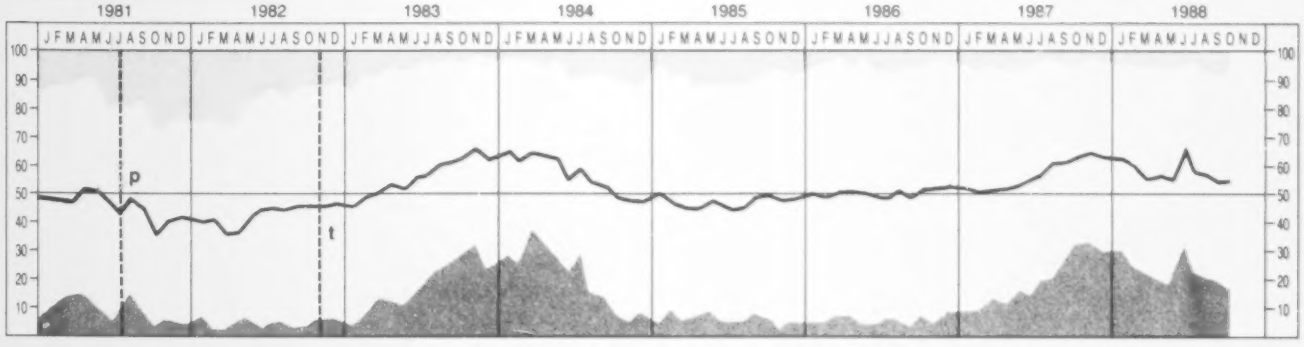
NEW ORDERS



New Orders continued to expand in October for the 41st consecutive month after taking into consideration normal seasonal variations. The index registered 58.9% and reversed three consecutive months of slowing growth rate. The high level of growth suggests continued growth in Production in November.

New Orders	%Better	%Same	%Worse	Net	Index
October	28	54	18	+10	58.9
September	34	55	11	+23	58.4
August	31	54	15	+16	59.9
July	31	57	12	+19	62.1

VENDOR DELIVERIES



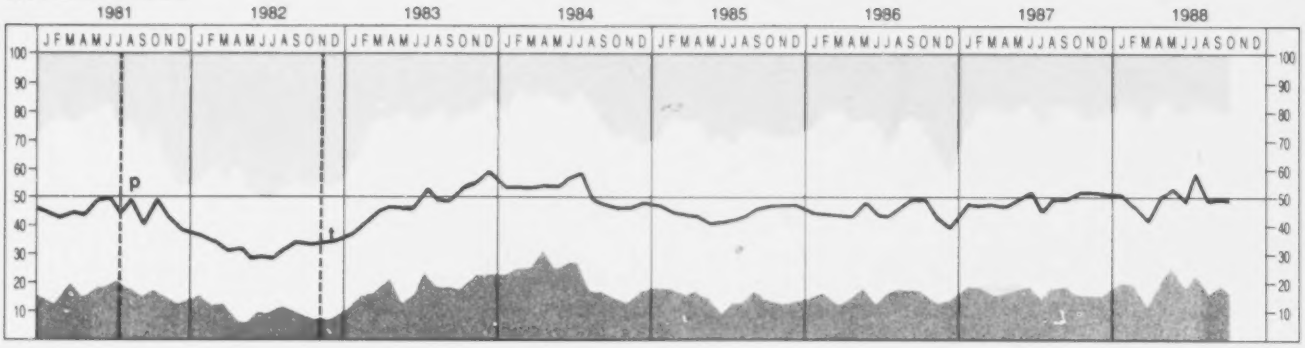
For the 25th consecutive month, Vendor Deliveries slowed. The index, at 55.6%, is only slightly higher than in September (55.0%) and continues to signal an overall lessening in the slowing of deliveries experienced since August 1987. Nevertheless, numerous commodities continued to be reported in short supply.

Vendor Deliveries	%Slower	%Same	%Faster	Net	Index
October	17	77	6	+11	55.6
September	19	73	8	+11	55.0
August	20	73	7	+13	58.1
July	21	75	4	+17	58.8

IN SHORT SUPPLY:

Aluminum (13th consecutive month), **Copper** (2nd consecutive month since May 1988), **Steel** (17th time in 20 months), **Stainless Steel** (10th consecutive month), **Steel Tubing** (2nd time in 3 months), **Bleached Paperboard** (4th consecutive month), **Polyethylene** (6th consecutive month; used heavily in making packaging materials and paper coatings), **Plastic Resins** (6th consecutive month), **Acrylic Acid** (3rd time in 4 months; used in manufacturing plastics), **Caustic Soda and Soda Ash** (17th consecutive month; used heavily in paper-making, petroleum refining and soap-making), **Ethylene** (7th consecutive month; some easing in tightness reported; used heavily in making ethylene oxide, plastic resins and glycols), **Ethylene Oxide** (8th consecutive month), **Ethylene Derivatives** (4th time in 5 months). NOTE: three major ethylene and ethylene-derivative plants previously closed because of fires, are now back in production. **Phenol** (7th consecutive month; used heavily in making phenolic resins), **Titanium Dioxide** (15th consecutive month; lead-free pigment used as a whitener in coatings, paints, paper and other industrial applications), **Motor Bearings** (3rd consecutive month).

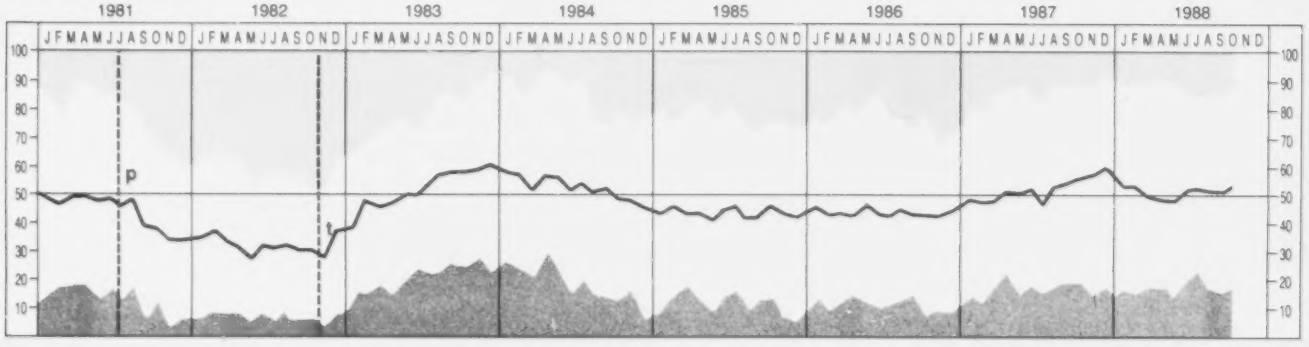
INVENTORIES



Inventories declined slightly in October, considering normal season variations, marking the third consecutive month they have decreased. Apparently the growth in the economy is not being assisted by increasing inventories.

Inventories	%Higher	%Same	%Lower	Net	Index
October	15	65	20	−5	49.4
September	20	61	19	+1	49.6
August	18	64	18	0	48.6
July	22	60	18	+4	55.1

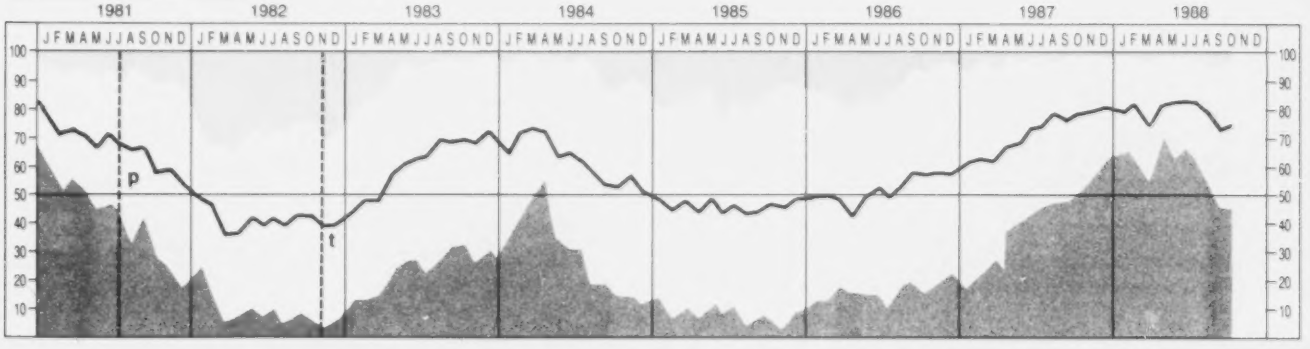
EMPLOYMENT



Employment increased sharply in October. This was the fifth consecutive month Employment grew after considering normal seasonal variations. At 53.7%, the index was the highest through all of 1988 and reversed two previous months in which the rate of growth slowed.

Employment	%Higher	%Same	%Lower	Net	Index
October	16	72	12	+4	53.7
September	14	70	16	−2	50.2
August	16	68	16	0	50.7
July	19	69	12	+7	51.7

COMMODITY PRICES



October was the 27th consecutive month that more purchasers reported price increases than decreases. The good news is that the index fell for the fourth consecutive month to 70.7% and is at the lowest since May 1987 (67.8%). The declining rate of price increases, coupled with a significant reduction in the number of commodities noted as being higher priced, may well be the beginning of a trend toward lower inflation.

Prices	%Higher	%Same	%Lower	Net	Index
October	45	51	4	+41	70.7
September	47	49	4	+43	72.2
August	55	40	5	+50	78.7
July	63	35	2	+61	81.1

UP IN PRICE:

Copper (18th time in 20 months), **Steel** (25th time in 26 months), **Stainless Steel** (10th consecutive month), **Zinc** (9th time in 10 months; used heavily in metal alloys and as a protective coating for metals), **Castings** (3rd consecutive month), **Printing Paper** (19th time in 22 months), **Paper Products** (9th consecutive month), **Polyethylene** (16th time in 17 months; used heavily in making packaging materials and paper coatings), **Plastic Resins** (16th time in 17 months), **Plastic Products** (17th time in 18 months), **Phenol** (2nd time in 4 months; used heavily in making phenolic resins), **Alcohols, Caustic Soda** (23rd consecutive month; used heavily in paper-making, petroleum refining and soap-making), **Ethylene** (14th time in 15 months; used heavily in making ethylene oxide and plastic resins), **Ethylene Derivatives** (8th time in 9 months), **Ethylene Glycols** (3rd time in 4 months), **Titanium Dioxide** (6th time in 7 months; a lead-free pigment used heavily as a whitener in coatings, paints, paper and other industrial applications), **Sugar** (2nd time in 3 months).

DOWN IN PRICE:

Fuel Oil (9th time in 11 months), **Diesel Fuel, Black Pepper** (2nd time in 3 months).

BUYING POLICY

Lead times for Production Materials declined in October, mirroring the lessening rate of growth in slower Vendor Deliveries. Lead times of 90 days and longer dropped to 20% of purchasers, down sharply from 26% in September and the lowest since September 1987 (also 20%). Lead times for Capital Expenditures fell, with 57% of members reporting lead times in the 6 months and longer category, down from September's exceptionally high level of 60%. Lead times for Maintenance, Repair and Operating (MRO) lengthened somewhat as the number of members reporting lead times of 30 days or less declined to 80%, down from 85% in September.

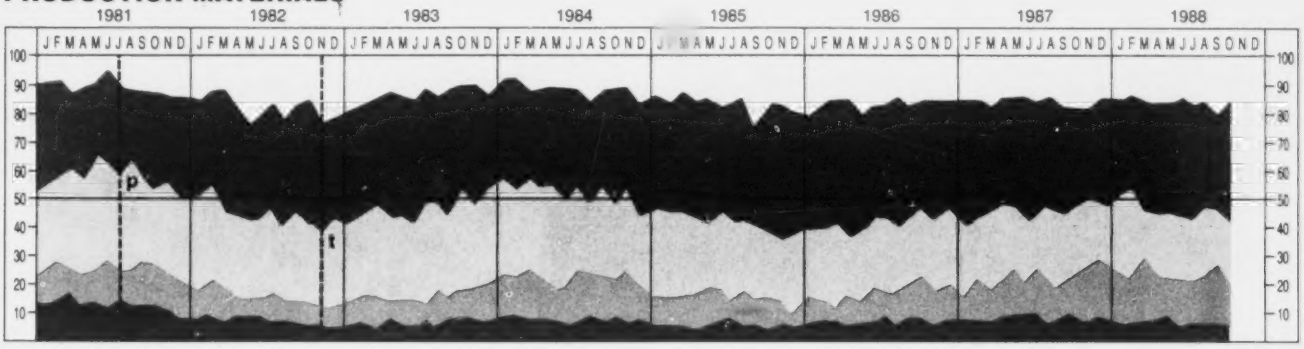
Percent Reporting

Production Materials	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
October	15	42	23	15	5
September	16	34	24	20	6
August	16	35	27	16	6
July	16	40	23	15	6

Capital Expenditures	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
October	10	6	12	15	57
September	9	5	10	16	60
August	12	5	12	16	55
July	8	5	13	18	56

MRO Supplies	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
October	38	42	13	5	2
September	38	47	13	2	0
August	40	45	11	4	0
July	35	48	15	2	0

PRODUCTION MATERIALS



Commodity Report
October, 1988

Paper Products
Prepared by the NAPM Paper Committee. Chair: Glen Farber, C.P.M., Vanier Graphics Corp., Santee, CA.

Newsprint: This commodity seems to be the one weak segment of the industry. Newsprint is readily available now and projected to remain the same for six months, with deliveries better or unchanged. Most plants are decreasing inventories, though reduced demand sometimes prevents this. Discounts are available with no price increases in near term, though possible in spring, 1989, depending on demand. Considerable new capacity is coming on shortly. This grade continues to be the first indication of a possible market turnaround.

Uncoated Groundwood: This commodity is not as weak as newsprint but not as tight as free sheet grades. Shipments are 3.1% Y-T-D through June with most increases going to the publishing industry. This grade continues to be a major imported item.

Coated Groundwood: This commodity still remains tight (tighter than coated free sheet) but there are early indications of loosening. It is a large growth item Y-T-D. One article indicates possible high inventories but two respondents indicate "on the edge" and "difficult to meet demand." Recent price increases are holding, with no more expected within 6 months. Some added capacity is expected.

Uncoated Free Sheet: This grade remains very strong, especially shipments to commercial printers, envelope convertors, and book publishers. Shipments through June 1988 are up 6.5% versus the same period of 1987. Two new machines recently started up at Weyerhaeuser and Georgia-Pacific, with announcements by Boise and Willamette for additions in late 1990. Incremental growth is expected between now and then, although Weyerhaeuser and Georgia-Pacific effects have yet to be felt in the marketplace. Several respondents report that supply is very tight and on allocation, and most expect this to continue. Lead times are variable depending on the supplier. After a price increase October 1st, most feel prices will not change for 6 months — with the possible exception of reprographics. This is not a good time for just-in-time inventories. There is still major labor unrest throughout the industry.

Coated Free Sheet: Supplies are very tight and on allocation, which is expected to continue for 6 months. Production capacity will not increase in the near term. Champion and Westvaco have recently announced capacity additions for late 1990. Lead times and inventories are stable with a few increases. Recent price increases are holding and more are expected within 6 months. This grade has been a big growth item and API reports an 11.2% increase in tons shipped in the last 6 months vs. the same period of 1987.

Bleached Bristols: This commodity was a surprise growth item this year. Supplies are normal to tight; lead times are increasing, with certain grades worse than others. Inventories are static. Prices are increasing. No new capacity is announced.

Paperboard/Linerboard: These grades are very tight and close to being on allocation, with no change expected for 6 months. SBS appears to be the tightest with lead times rapidly stretching. No added capacity is expected in the near future for this grade, and only incremental additions in capacity for linerboard. Inventories show no change or are up slightly. Prices for paperboard increased in October. The largest linerboard supplier announced increases for January 1 and appears to be looking for support. This grade really depends on the overall health of the economy.

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The next issue of *REPORT ON BUSINESS* will be available December 5.